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16 September 1970

MEMORANDUM FOR THE RECORD

SUBJECT: Conversation With Vic Zafra, OMB, re Retirement Legislation

1. Called Vic Zafra, in the Office of Management and Budget, to determine the next step on our retirement legislation in the light of Treasury's adverse comment on the funding proposals.

2. Zafra said that OMB has asked for the Civil Service Commission's views on Treasury's report since the report also applies to CSC and that due to the importance and complexity of the matter it will take at least three weeks for CSC to review Treasury's report and to prepare its rebuttal or come into line. Zafra concluded that we could not make our legislative transmittal to the 91st Congress.

3. I told Zafra that while this delay may not be serious in connection with Title I of our bill dealing with financing, we were facing a critical retirement quota problem, and we feel it is important to transmit to the 91st Congress Title II of the bill in which the relief from quota is contained since a slight possibility that we could get favorable action still exists. I reminded Zafra that the provisions in Title II are not new, had been previously cleared on several occasions by OMB, and had, in fact, been passed by one House.

4. In response to Zafra's request, I reviewed our quota problem and he agreed that it was critical. He said he would see if he could get us clearance on Title II of the bill and promised to be back in touch within the next two days.

5. I also reminded Zafra of the previous favorable action on the transfer of employee contributions provision in Title I, but it became clear that this would muddy the water on clearance of Title II, so I did not push for its inclusion in his clearance request.

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6. Zafra inferred that Treasury's report may open up the whole funding question, including such possibilities as merging the Foreign Service and our Fund with the Civil Service Fund or attempting to determine what portion of higher "normal costs" of the Foreign Service (by inference our Fund also) should be absorbed by the Government for "management convenience" (a term Zafra admitted would be difficult to define) and the portion which should be shared equally through increased employer/employee contributions above the current 14 percent of salary to, say, 20 percent.

7. I mentioned that factors other than the relatively small higher benefit levels and earlier retirement age had a bearing on the "normal costs" issue such as the gain from Government contributions paid on behalf of the literally millions of employees who leave Government service and never constitute a cost burden on the Civil Service Fund and Zafra agreed.

8. Zafra also criticised the management of the Foreign Service retirement system saying that selection out was not being used in the manner originally intended with the result that the participants generally retire at the same age levels as their Civil Service counterparts, but at higher benefit levels.

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